

V I R G I N I A:

BEFORE THE VIRGINIA GAS AND OIL BOARD

IN RE:

Application of Oxy USA, Inc.
for Forced Pooling of Interests in a Drilling Unit
Affected by Well Number CMB S-33, VGOB 91-0924-146 in the
Garden Magisterial District of Buchanan County, Virginia

This cause came on this 24th day of September, 1991, upon the application of Oxy USA, Inc. requesting that this Board pool the interests of well operators in the 80-acre drilling units established for the Oakwood Coalbed Methane Field in the Garden Magisterial District of Buchanan County, Virginia. Notice of the filing of the application herein and of the time, date and place of the hearing thereon was duly and properly given to each well operator of record having an interest in the coalbed methane gas below the Tiller seam of coal underlying the tracts within the drilling unit covered hereby as required by Section 45.1-361.19 of the Code of Virginia, 1950 as amended. The Board examined the Notice as given and further conducted inquiry into the sufficiency of Oxy USA, Inc.'s search to determine the names and whereabouts of well operators who may be affected by the pooling of coalbed methane gas below the Tiller seam of coal in the drilling unit involved herein. The Board finds that Oxy USA, Inc. has exercised due diligence and has conducted a meaningful search of reasonably available sources at hand, including, but not limited to, grantor/grantee indexes, deed books, will records, tax records, local telephone books and has had conversations and correspondence with interested parties. The Board hereby approves the notice

given, by publication and otherwise, as meeting the statutory requirements, rules of the Board and minimum standards of state and federal due process, and finds that notice has been given in all respects as required by law and the rules of this Board.

Ashland Exploration, Inc. objected to pooling of interest in this proposed drilling unit. Ashland Exploration, Inc. alleged in their written objection that:

(1) Oxy USA, Inc. had no standing to request involuntary pooling. Ashland contended that Oxy is not a claimant within the meaning of Section 45.1-361.22 of the Code of Virginia.

(2) Oxy is not a principal or lessee who may make an application.

(3) Oxy has no method to transport coalbed methane gas from the unit.

(4) The unit fails to comply with the statewide field rules effective July 1, 1990 as set forth in Virginia Code Section 45.1-361.17.

(5) The size and configuration of the unit is not adequate to drain the gas to be extracted and violates the correlative rights to Ashland in such gas.

(6) The well is not located in the center of the proposed unit, which failure will result in the drainage of areas outside the proposed unit.

(7) The plat submitted by the applicant Oxy with its application fails to comply with the regulations of the Board and the Inspector and fails to adequately advise Ashland of the

information necessary to determine the issues which may be applicable to the proposed unit sought by the application.

(8) The provisions of Virginia Code Section 45.1-361.22 are violations of the due process rights and constitute a taking of tangible property and impairment of contracts of Ashland in violation of the United States Constitution and the Constitution of the Commonwealth of Virginia.

Ashland has introduced no evidence with respect to items 1 - 8 above. The Board finds that these objections should be and hereby are overruled.

The Board is of the opinion that the provisions of Section 45.1-361.22 should be construed broadly. This broad construction is necessary to recognize that there may be conflicting claims to the ownership of coalbed methane gas. The Virginia General Assembly recognized that conflicting claims to ownership could potentially prevent development and production of this resource. Section 45.1-361.22 addresses this problem and allows for development and production of coalbed methane pending resolution of ownership.

Accordingly, based upon the evidence presented, the Board finds that Oxy USA, Inc. is a claimant within the meaning of Section 45.1-361.22, to coalbed methane interests below the Tiller seam of coal in the drilling unit as described on the map, which is attached hereto as Exhibit "A" and made a part hereof, and has the right to conduct operations on its coalbed methane interests. Based on the evidence presented, the Board finds that the following

named persons may be owners of coalbed methane gas interests below the Tiller seam of coal, which are held pursuant to a lease or other agreement, in the drilling unit involved herein, who have not voluntarily agreed to pool their interests in this unit for its development and operation:

Ashland Exploration, Inc.
P. O. Box 391
Ashland, KY 41101

Based upon the evidence presented, the Board finds that, in order to avoid the drilling of unnecessary wells, prevent the various types of waste and protect the correlative rights of all owners and potential owners of coalbed methane gas with respect to the drilling unit involved herein, the owners and potential owners of coalbed methane gas involved who have not heretofore reached an agreement with respect to development and operation of the drilling unit covered hereby shall be required to pool their coalbed methane gas interests below the Tiller seam of coal for the development of this drilling unit, upon the terms and conditions set out in this order, all of which terms and conditions are found, after consideration of the evidence presented in this cause, to be supported by substantial evidence and to be just, reasonable and equitable and such as will afford each coalbed methane gas owner and potential owner in this unit the opportunity to recover or receive just and equitable share of production from this unit.

Based upon the evidence presented at the public hearing in this matter, the Virginia Gas and Oil Board orders as follows:

(1) The interests of well operators, as named above, in this 80-acre drilling unit established in the lands involved herein for the Oakwood Coalbed Methane Gas Field are hereby pooled for the development and operation of this unit. Oxy USA, Inc., is hereby authorized to drill, complete and operate a well in this drilling unit so as to produce coalbed methane gas from the pooled acreage, consistent with the terms and provisions of its applicable well work permit and the Oakwood Field Rules.

(2) Each owner or potential owner of coalbed methane gas below the Tiller seam of coal involved herein, other than Oxy USA, Inc., shall, within 30 calendar days after the date of mailing this Order, deliver to Oxy USA, Inc., P. O. Drawer Q, Richlands, VA 24634, a written election either to participate in the operation of the well covered hereby or to exercise such well operator's right of election under this order as described below. A timely election shall be deemed to have been made if a well operator on or before the last day of such 30 calendar day period has sent such written election by telegram or telegraph to Oxy USA, Inc., or has had such written election duly postmarked and has placed such written election in the United States mail, first class, postage prepaid, duly addressed to Oxy USA, Inc., at the address set forth above. The alternatives afforded to the well operators herein pooled are set forth below.

Each coalbed methane gas well operator or potential well operator herein pooled claiming an interest as to the coalbed methane gas below the Tiller seam of coal derived from any tract

within the drilling unit involved herein is accorded the following options as to such interest:

(a) Participation: To participate in the working interest in and the development of the coalbed methane gas below the Tiller seam of coal in the drilling unit involved herein by agreeing to pay such well operator's proportionate part of the actual cost of drilling, completing, equipping, operating, plugging and abandoning of the well covered hereby and by paying as set forth herein, to Oxy USA, Inc., such owner's proportionate part of the \$230,200 estimated cost of drilling, completing, equipping, operating, plugging and abandoning of the proposed well covered hereby. A participating well operator's proportionate part of the anticipated cost of completion and share of the production from such well shall be in the proportion that the number of net mineral acres in the unit covered by the coalbed methane gas rights owned by such party bears to the entire number of mineral acres in this unit; or

(b) Carried interest: In lieu of participating in the working interest in and the development of the pool in this drilling unit, as set forth in subparagraph (i) above, to elect to share in the operation of the well covered on a carried basis (as a carried well operator) so that the proportionate part of the actual cost of drilling, completing, equipping, operating, plugging and abandoning of such well allocable to such carried well operator's interest is charged against such carried well operator's share of production from such well. All of such carried well operator's coalbed methane gas rights below the Tiller seam of coal

Aleenah Bond

in the pool in the drilling unit involved herein are relinquished under this order to Oxy USA, Inc. until the proceeds from the sale of the share of production from such well accruing to such carried well operator's unleased interest in the drilling unit involved herein, exclusive of any royalty, excess or overriding royalty, or other non-operating or non-cost bearing burden reserved in any lease, assignment thereof or agreement relating thereto covering such interest, equals three hundred percent (300%) for a leased interest or two hundred percent (200%) for an unleased interest of the share of the cost of drilling and completing the well allocable to the coalbed methane gas interest of such carried well operator; plus one hundred percent (100%) of the carried operator's share of the cost of surface equipment beyond the wellhead connection of such well allocable to the interest of such carried well operator; plus one hundred percent (100%) of the share of the cost of operating such well allocable to the coalbed methane gas interest of such carried well operator. Such carried well operator's proportionate part of the costs of, and the production from, the well covered hereby is to be in the proportion that the number of net mineral acres in the unit covered by the coalbed methane gas interest owned or potentially owned by such carried well operator bears to the entire number of mineral acres in such unit. During the period of time Oxy USA, Inc. is entitled to receive such carried well operator's share of production or the proceeds therefrom, Oxy USA, Inc. shall pay all applicable production, severance, excise, gathering and any other taxes based upon or

measured by the value or amount of production and shall separately calculate and pay to such carried well operator for payment to the appropriate owner any royalty, excess or overriding royalty and any other non-operating or non-cost bearing burden reserved in any lease, assignment thereof or agreement relating thereto which is deducted from the share of production of such carried well operator. Such royalty, excess or overriding royalty and other non-operating or non-cost bearing burden is not to be subject to any charge for operating costs. Payment by Oxy USA, Inc. to such carried well operator of any such royalty, excess or overriding royalty or other non-operating or non-cost bearing burden shall be made within ninety (90) days after the end of the calendar month within which the production subject to such burdens is sold. Within sixty (60) days after the completion of the well covered hereby, Oxy USA, Inc. shall furnish such carried well operator an inventory of the equipment in and connected to such well and an itemized statement of the cost of drilling, completing and equipping such well for production; and for each month thereafter, during the time Oxy USA, Inc. is being reimbursed as provided above, Oxy USA, Inc. shall furnish to such carried well operator an itemized statement of all costs and liabilities incurred in the operation of such well, together with a statement of the quantity of coalbed methane gas produced therefrom and the amount of proceeds realized from the sale of the production allocable to such carried well operator's interest in the unit during the preceding month. Oxy USA, Inc. shall also furnish to the State Gas and Oil

Inspector, copies of the same statements furnished to each carried well operator under the provisions hereof. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any operation on the well covered hereby which would have been owned by such carried well operator had such owner participated therein as a participating well operator shall be credited against the total uncovered well costs in determining when the interest of such carried well operator shall revert to such owner as described above. When Oxy USA, Inc. recovers from such carried well operator's relinquished interest provided for above, the relinquished interest of such carried well operator shall automatically revert to such owner, and from and after such reversion, such carried well operator shall be treated as a participating well operator and shall own the same interest in such well, the material and equipment in or pertaining thereto and the production therefrom, as such owner would have been entitled to had such owner participated initially as a participating well operator in the drilling, completing and equipping of such well; and thereafter, such owner shall be charged with and shall pay the owner's proportionate part of the further costs of the operation of such well.

(c) Cash Consideration: In lieu of participating in the working interests in and the development of the drilling unit involved herein, any owner of an unleased interest may elect to receive a sum of ONE DOLLAR (\$1.00) per net mineral acre owned by such owner, plus a total royalty in the amount of one-eighth of

eight-eighths ($1/8$ th of $8/8$ ths) of the coalbed methane gas and gas condensate produced from the well covered by this Order, the same to be delivered into the lease tanks or into the pipelines to which such well is connected, free and clear of all costs, expenses and risks incurred in or in connection with drilling, equipping, operating, completing, plugging and abandoning of such well. Any well operator electing this option shall deliver under this Order a net revenue interest of 87.50% of $8/8$ ths of the coalbed methane gas and gas condensate produced from the well covered by this Order, with such net revenue interest being determined by deducting from such owner's share of production the royalty provided for immediately above; and provided further, that such royalty of $1/8$ th of $8/8$ ths and such net revenue interest of 87.50% of $8/8$ ths shall be proportionately reduced and payable only in the proportion that the number of net mineral acres in the drilling unit covered by the coalbed methane gas rights owned by such well operator bears to the entire number of mineral acres in this unit; or

(3) In the event a well operator, either an owner of an coalbed methane gas lease or an owner of an unleased tract, who is subject to the provisions of this Order shall fail to timely and properly elect, in writing, one of the applicable options as set forth above, such well operator shall be deemed to have elected not to participate in the working interest in the well covered hereby and shall be deemed to have leased his interest in the coalbed methane gas to the designated coalbed methane gas well operator. In the event a well operator, either an owner of a lease interest

or an owner of an unleased interest, who is subject to the provisions of this Order shall elect to act as a participating well operator under 2A.(i) or B.(i) above, whichever is applicable, but thereafter fail or refuse to pay or secure the payment of such well operator's proportionate part of the cost of the well covered hereby as set forth in such provisions, such election to act as a participating operator under this Order shall be null and void and such well operator shall become a carried well operator consistent with the terms and provisions of this Order.

(4) If any payment of bonus, royalty payment or other payment due and owing under this Order cannot be made because the person entitled thereto cannot be made certain due to conflicting claims of ownership and/or a defect or cloud on the title, then such cash bonus, royalty payment or other payment shall be deposited into an interest bearing escrow account within one hundred eighty (180) days after the date of this Order and shall not be commingled with any funds of the applicant or unit operator. Such funds shall be held for the exclusive use of, and sole benefit of, the person entitled thereto until such funds can be paid to such person(s) or the holder relinquishes such funds to the Board as required by law or the Board.

If any person whose interest is pooled hereby refuses to accept the cash bonus consideration or if any such person cannot be paid the cash bonus, royalty payment or any other payment due hereunder for any reason other than the reasons set forth above, the unit operator may deposit such cash bonus, royalty payment or

other payment into an escrow account established in the accounting records of unit operator and such funds shall be credited to such account for the benefit of such person. Such funds so deposited in such escrow account shall be held for the benefit of the person(s) entitled thereto until such funds can be paid to such person(s) or until they are required to be paid to the Commonwealth.

Within thirty (30) days of the expiration of any and all election periods provided in paragraph 2, the designated operator shall tender to the State Gas and Oil Inspector a notarized statement of all disputed claims, specifically, including a breakdown of the type of interest, mineral ownership and percentage of ownership. This statement shall be used in creating and establishing the escrow accounts required by this Order. If any changes in the status of conflicting claims occur, the designated operator shall immediately notify the State Gas and Oil Inspector and within thirty (30) days submit an amended disputed claims statement.

Within 30 days of receipt of a certified copy of the final legal determination of entitlement or upon receipt of an agreement signed by all claimants, the Board shall order payment of principal and accrued interest from the escrow account described above to all persons legally entitled thereto.

(5) Any well operator involved herein who has not appeared in response to the notice of hearing published pursuant to the provisions of Section 45.1-361.19, Code of Virginia, 1950, as

amended, and whose identity or whereabouts remains unknown at the conclusion of the hearing in this matter shall be deemed to have elected to lease his interest to the coalbed methane to the well operator designated to drill as described in paragraph 1, under the same terms and conditions as set forth in paragraph (c) above. The designated well operator shall deposit into a separate, distinct interest-bearing escrow account established by the Virginia Gas and Oil Board with the Treasurer of Virginia all proceeds attributable to the unknown lessor's interest. All sums so deposited shall be held for the unknown lessor's benefit and shall be deemed unclaimed property and disposed of pursuant to the Uniform Disposition of Unclaimed Property Act (Section 55-210.1, et seq.)

(6) Any cash bonus which becomes payable by Oxy USA, Inc. under the provisions of 2(c), above, shall be paid or tendered within thirty (30) days after the date of this Order; provided, however, if the owner entitled to such funds releases the same, or if such owner's interest in the unit involved in this cause has a defect or cloud in the title thereto, or if such owner cannot be paid such funds for any reason whatsoever other than the reasons set forth in paragraph 2 and 3 above. Oxy USA, Inc. may deposit (credit) such funds due such party into an internal escrow account established in the accounting records of Oxy USA, Inc. and such funds shall be credited to such account for the benefit of such owner. Such funds so deposited (credited) in such escrow account shall be held for the benefit of the owner entitled thereto until

such funds can be paid to such owner, or such owner accepts such funds, or until such title defect or cloud is cured or removed to the satisfaction of Oxy USA, Inc.

(7) Oxy USA, Inc., in addition to any other rights afforded such party under the laws of Virginia, shall have a lien on the mineral leasehold estate or rights owned by the other well operators involved herein in the unit covered hereby and upon their shares of the production from the well covered hereby to the extent that costs incurred in the development and operation of the drilling unit involved herein are a charge against such interests. Such liens shall be separable as to each separate well operator and shall remain a lien until all costs incurred in connection with the well have been paid. Upon the failure or refusal of any participating well operator to pay such well operator's proportionate part of any cost incurred hereunder in connection with the well covered hereby, shall be entitled to receive the share of production from the well accruing to such defaulting participating well operator's interest in the unit involved herein, or the proceeds from such share, until such proportionate part of such cost has been paid. No part of the production or proceeds accruing to any participating well operator shall be applied toward payment of costs chargeable to any other interest in such unit. If any participating well operator fails or refuses to pay such well operator's proportionate share of the cost incurred hereunder in connection with the well covered hereby within sixty (60) days after rendition of a statement therefore by Oxy USA, Inc., the non-

defaulting participating well operators, including Oxy USA, Inc., shall, upon request by Oxy USA, Inc., pay the unpaid amount in the proportion that the interest of each such non-defaulting participating well operator bears to the total interests of all such non-defaulting well operators. In such event, each non-defaulting participating well operator so paying such well operator's share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the lien rights described above.

(8) If the well involved herein has not been commenced as of the date of this Order, shall commence or cause to be commenced operations on such well within three hundred and sixty-five days (365) days from the date of this Order and in any event, shall continue or cause to be continued operations under this Order with due diligence; otherwise, the provisions thereof shall be inoperative and this Order shall terminate, except for any cash sums becoming payable hereunder, unless the time of commencement of such operation is extended by an Order of the Board.

(9) Oxy USA, Inc. shall, within thirty (30) days, after completion, tender to the State Gas and Oil Inspector an itemized statement reflecting the actual cost of drilling, equipping, completing, plugging and abandoning the well. Additional itemized statements reflecting actual operating costs shall be furnished to the State Gas and Oil Inspector on a quarterly basis. If the actual costs of drilling, completing, equipping, plugging and abandoning the well is different than Oxy USA, Inc.'s estimates,

appropriate adjustments to the burdens imposed on each participating or carried operator's share shall be made.

(10) Oxy USA, Inc. shall cause a certified copy of this Order to be mailed to the last known address of each well operator as listed in this Order.

The relief granted by this Order is to avoid the drilling of unnecessary wells, prevent the various types of waste or coalbed methane gas and protect the correlative rights of all owners with respect to the pools in the drilling unit involved herein.

Done this 24th day of October, 1991, by a majority of the Virginia Gas and Oil Board.


CHAIRMAN

Done and performed this 24th day of October, 1991, by order of this Board.

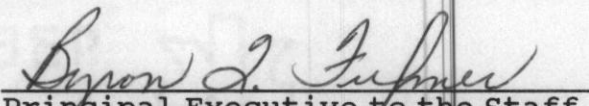
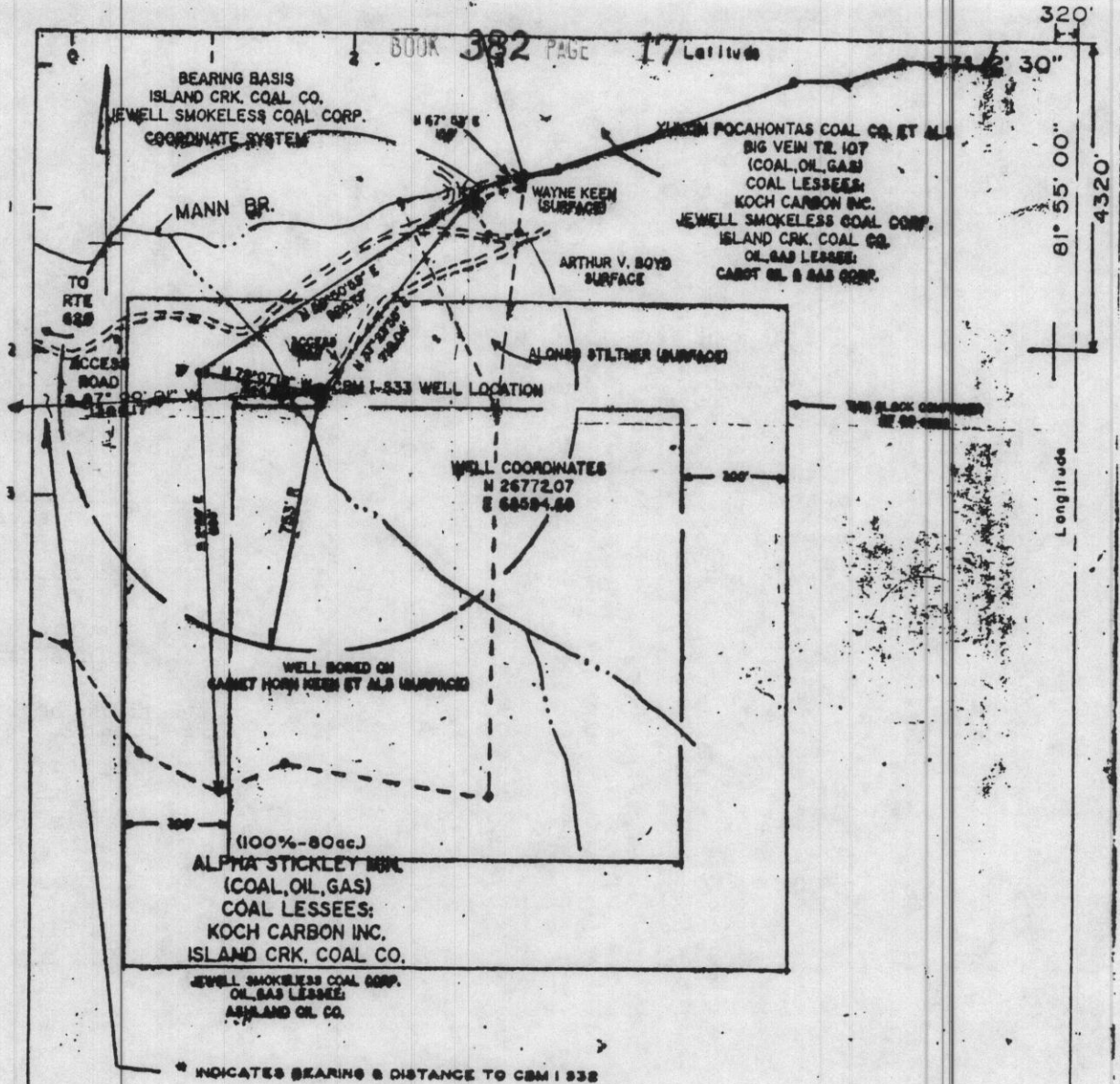

Principal Executive to the Staff,
Virginia Gas and Oil Board

EXHIBIT "A"
VGOB-91-0924-146



COAL BED METHANE LESSEE: OXY USA INC.

COMPANY OXY USA INC.
ADDRESS DRAWER Q RICHLANDS, VA. 24641
WELL NAME CBM I-533
FARM TRACT ALPHA STICKLEY
LEASE NO. ELEVATION 204169
ACRES 1173.72 QUADRANGLE KEEN MOUNTAIN
COUNTY BUCHANAN DISTRICT GARDEN
REG. ENGINEER VA REG. NO. 2687
CERT. LAND SURVEYOR CERT NO.
FILE NO. DRAWING NO.
DATE 4/12/91 SCALE 1"=400'

This plot is new ☒ updated
This plot ☒ is not based on a mine
coordinate system established for the area
of the well location.

FORM 5

WELL LOCATION MAP

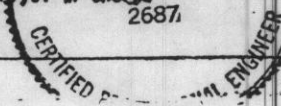
WELL NO. CBM I-533

+ Denotes location of well on United States
Topographic Maps, scale 1 to 24,000, lat-
itude and longitude lines being represented
by border lines as shown.

CERTIFICATION OF WELL PLAT

I, the undersigned, hereby certify that
this plat is correct to the best of my
knowledge and belief, and that I have all the
information required by law and the regulations
of the Well Review Board.

NELSON E. LIGHT
Registered Engineer or Certified
Land Surveyor in Charge
No. 2687



State of Virginia
County of Washington

Acknowledged on this 24th day of October, 1991, personally before me a notary public in and for the State of Virginia appeared Benny Wampler, being duly sworn did depose and say that he is Chairman of the Virginia Gas and Oil Board, that he executed the same and was authorized to do so.

Diane Davis

Diane Davis
Notary Public

My commission expires 9/23/92

State of Virginia
County of Washington

Acknowledged on this 24th day of October, 1991, personally before me a notary public in and for the State of Virginia appeared Byron Thomas Fulmer, being duly sworn did depose and say that he is Principal Executive to the Staff of the Virginia Gas and Oil Board, that he executed the same and was authorized to do so.

Diane Davis

Diane Davis
Notary Public

My commission expires 9/23/92

VIRGINIA. In the Clerk's Office of the Circuit Court of Buchanan County. The foregoing instrument was this day presented in the office aforesaid and is, together with the certificate of acknowledgment annexed, admitted to record this 28th day of October, 19 91 1:46 P. M.
Deed Book No. 382 and Page No. 1

TESTE: *J. N. Fed* Clerk

3016

~~X~~

CLERK'S OFFICE CIRCUIT COURT
BUCHANAN COUNTY, VIRGINIA

Filed and admitted to record.

this 28th day of Oct 1991
at 1:44 o'clock P M.

Recorded Deed Book 382 Page 1

039 State Tax _____

213 County Tax _____

212 Transfer _____

301 Recording _____

518 Pats _____

038 State Tax _____

Sec. 58.1-802 _____

220 Local Tax _____

Sec. 58.1-802 _____

145 VS&F _____

Total 28.00

Teste by RMA, Jr., Clerk

By _____ D.C.

Address

Department of Mineral,
Municipal & Energy
Division of Gas & Oil
P.O. Box 1416
Abingdon, VA 24210